



BENEFITS NEWS

April 2003

Catching Up With the TSP

If you are age 50 or over and already contributing the maximum amount into your Thrift Savings Plan account, soon you will be able to sock away additional pre-tax money in that account. Approved by Congress last fall, these "catch-up contributions" allow Federal employees to make up for the years they may have been unable to contribute to the 401k-style retirement plan. Best of all, these additional contributions do not count against the TSP contribution percentage limitation or the annual elective deferral amount.

Eligible Employees Must:

- Be age 50 or older by December 31 of each year;
- in a pay status, because contributions are made by payroll deduction;
- contributing either the maximum TSP contribution percentage or an amount which will result in reaching the elective deferral limit by the end of the tax year;
- not be in the 6-month non-contribution period following receipt of a financial hardship in-service withdrawal

Catch-up Contributions Have Annual Limits

The contribution limit for 2003 is \$2,000. That amount increases to \$3,000 in 2004 and \$4,000 in 2005. In 2006 and thereafter, the limit remains at \$5,000. As with regular contributions, they apply to the year that is recorded as the pay date.

It is possible for a highly paid FERS participant to contribute up to \$14,000 in 2003 (\$12,000 in regular employee contributions plus \$2,000 in catch-up contributions.)

Agency Contributions

Catch-up contributions are **not** eligible for matching contributions and there are no Agency Automatic (1%) Contributions.

Initial Elections

The Thrift Investment Board is expected to officially announce this new investment opportunity in the next month or two. At that time, Human Resources Division will notify all employees of the opportunity to make catch-up contributions to the TSP and, specifically, how to start those contributions.

As with TSP Open Season elections, it is expected that eligible employees will be required to make catch-up contribution elections using Employee Express beginning in July 2003. Initial elections will be effective August 10.

Amounts Elected

Catch-up contribution elections must be made in whole dollar amounts, which will be deducted from your basic pay each pay period until the earliest of the following:

- the annual catch-up limit is reached;
- the calendar year ends; or
- you elect to stop contributing

If you enter nonpay status, catch-up contributions, like your regular TSP contributions, will stop. When you return to pay status, you cannot make up missed payments, but you can submit a new election increasing the catch-up contribution amount to effectively make the maximum catch-up contribution allowed for that year.

Eligible participants can make a catch-up contribution election at any time of year, and they are not subject to Open Season rules. Because the annual limit changes each year, participants must make a new election each year and elections made after July 2003 will be effective no later than the following pay period.

Catch-up Contribution Allocations

These additional contributions will be invested in participants' accounts based on the most current contribution allocation on file with the TSP. Allocations must be made using the TSP Web site at <http://www.tsp.gov> or calling the ThriftLine at (504) 255-8777.

Voluntary Contributions Increase Retirement Savings

Looking for a guaranteed annual rate of return for retirement savings? If you are covered by CSRS or CSRS Offset, and are stressed at the ups and downs of the stock market, the Voluntary Contributions Program is worth considering.

A 1939 law allows these employees to increase their retirement annuities or save for retirement by voluntarily contributing money to the Civil Service Retirement and Disability Fund. The government pays market interest rates determined annually by the Treasury. In 2003, interest on voluntary contribution accounts increases at the rate of 5 percent.

The Thrift Savings Plan and the Voluntary Contributions Program are two entirely different programs. CSRS and CSRS Offset employees may contribute up to 8 percent of their annual salaries to the TSP through payroll withholding and choose investment options. And TSP contributions have the additional benefit of being pre-tax dollars. Voluntary contributions, on the other hand, allow employees who do not owe any deposits (for temporary appointments) or redeposit of prior refunded service to invest up to 10 percent of their lifetime Federal civilian earnings at any time and in any amount in multiples of \$25. Voluntary contributions are sent directly to the Office of Personnel Management (OPM) by check or money order, or an enrollee can elect to make direct payments from their checking or savings account. Another important difference is that TSP contributions and their earnings are tax deferred, while only the interest on voluntary contributions is tax deferred. From a financial standpoint, employees should maximize their TSP contributions before considering a voluntary contribution account.

Voluntary contribution accounts offer several advantages. The U.S. Government backs the investment. Interest is tax-deferred and can be rolled over to an IRA when withdrawn, an enrollee can deposit small amounts when it's convenient or a much larger

amount when it becomes available, and interest rates are known for coming year.

While withdrawing the account balance before retirement may be the wiser investment choice for most employees, purchasing an additional annuity at retirement is another option. Each \$100 in a voluntary contribution account (including interest) will provide \$7 of additional annuity per year, plus 20 cents for each full year a retiree is over age 55. For example, if you retire at age 65, each \$100 buys an additional \$9 a year of annuity. While a retiring employee also has the option of electing a survivor benefit, it's also important to remember that annuities bought with voluntary contributions are not increased by cost-of-living adjustments.

To start a voluntary contribution account, CSRS and CSRS employees should complete the Application to Make Voluntary Contributions, Form SF-2804, at <http://www.opm.gov/forms/pdfimage/sf2804.pdf>. Completed applications must be forwarded to the Benefits and Retirement Staff in Room 1418, FB3, at Census headquarters. Once the account has been approved, OPM will send instructions for making contributions.

For more information, contact the Benefits staff at (301) 763-HR4U or 1-800-272-7186. TTY/TDD callers, please use the Federal Relay Service at 1-800-877-8339. This is a free and confidential service.

OPM AWARDS FSA CONTRACT

The Office of Personnel Management has awarded a contract to SHPS, Inc., for the administration of the flexible spending account program for employees. SHPS, headquartered in Louisville, Kentucky, manages nearly one million FSA and participant-reimbursement accounts nationally. Its list of clients includes state and local governments, and more than 70 Fortune 500 companies.

In the coming month, Human Resources Division expects to announce the initial sign up opportunity for a health-care FSA, a dependent-care FSA, or both.

Important Dates to Remember

Pre-Retirement Seminar (SHEP): May 6-8, June 24-26, July 8-10

Thrift Savings Plan Open Season: April 15- June 30, 2003

FedFlex Initial Enrollment Period: Proposed for mid-May- December 31, 2003

Benefits News is a periodic information sheet prepared by Human Resources Division.

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